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Memorandum

To: Paul Roberti, Esq. and Michael Rubin, Esq.

From: David Schlissel

Date: October 2, 2002

Subject: ***PG&E's net revenues from Brayton Point Station during 1999, 2000, 2001 and the first half of 2002.***

This memorandum presents our estimates of the net revenues that PG&E earned from the Brayton Point Station during 1999, 2000, 2001 and the first half of 2002.

Our overall conclusion is that PG&E has earned more than $500 million in net revenues since January 1999 as a result of its ownership of Brayton Point Station and, consequently, has reaped considerable profits. This is not surprising given (1) that three of Brayton Point's units are coal-fired baseload plants, (2) the high gas prices led to very high market clearing prices last year in the New England wholesale spot market and (3) the very high charges that PG&E has been paid for its sales to serve standard offer 1 customers in Rhode Island and Massachusetts.

We have performed two separate analyses. The first analysis is based on our own conservative assessment of the production costs at Brayton Point Station. The second analysis is based on PG&E's statement that the production costs for Brayton Point Units 1-3 were $15 per MWH in 2001 and were $35 per MWH for Unit 4. Both analyses reflect the revenues earned by PG&E from serving standard offer 1 customers in Rhode Island and Massachusetts and by selling power into the wholesale market.

The results of each of these analyses are presented in Tables 1 and 2 below.

Table 1: Net Revenues earned by PG&E from Brayton Point Station – Conservative Synapse Assumptions for Brayton Point Production Costs

	Gross Revenues	Costs	Net Revenues
Jan - Dec 1999	$295,120,399	$206,561,563	$88,558,836
Jan - Dec 2000	$353,356,884	$225,314,501	$128,042,383
Jan - Dec 2001	$443,872,660	$216,870,923	$227,001,737
Jan - June 2002	$162,237,462	$95,310,477	$66,926,985
Total			$510,529,941

Table 2: Net Revenues earned by PG&E from Brayton Point Station from January 1999 through June 2002 Assuming Production Costs of $15 per MWH for Units 1-3 and $35 per MWH for Unit 4.

	Gross Revenues	Costs	Net Revenues
Jan - Dec 1999	$295,120,399	$152,692,220	$142,428,179
Jan - Dec 2000	$358,653,095	$146,473,985	$212,179,110
Jan - Dec 2001	$443,872,660	$146,257,130	$297,615,530
Jan - June 2002	$162,237,462	$61,310,477	$100,926,985
Total			$753,149,804

Consequently, our first analysis shows that PG&E earned at least $500 million in net revenues between January 1999 and June 2002 in excess of its production costs as a result of its ownership of the Brayton Point Station. Our second analysis, using PG&E's stated 2001 production costs, shows net revenues from Brayton Point Station as high as $753 million.

We have calculated the net revenues because the calculation of profits requires the consideration of the income taxes that PG&E would have to pay on these net revenues and such other effects as interest charges and depreciation. At the same time, PG&E may argue that it has incurred additional operating and capital costs that should be included in the analysis. That may be true but there is no way to capture either these costs or the taxes paid by PG&E without access to internal PG&E documents. Moreover, the profits that PG&E has earned from Brayton Point Station have been considerable even if an allowance is made for taxes and for reasonable levels of additional operating and capital costs.

PG&E has indicated that it paid $398.95 million for Brayton Point when it purchased the facility from NEPCO.[1] Our analyses show that PG&E has clearly earned significant returns on this investment.

[1] USGen October 5, 1998 letter to Thomas Dunn and James Volz at the Vermont Department of Public Service, Overall Purchase Price Allocation Schedule, page 4 of 4.

Our analysis is conservative in a number of ways. First, it does not reflect any revenues that PG&E probably has earned from selling installed capability ("ICAP") entitlements to other market participants. The information on such sales is confidential but ISO-NE has said that it believes that, on average, ICAP entitlements have sold at a rate of $1.39 per kw-month since May 1999. There simply is no way to know whether PG&E earned more or less than this amount through the bilateral sale of ICAP entitlements. However, based on the average ISO-NE rate of $1.39 per kw-month, it is reasonable to assume that PG&E earned more than $30 million from the sale of ICAP entitlements since May 1999.

At the same time, it may have been true that PG&E sold more of the output from Brayton Point Station as made of its contract to provide the power to serve standard offer 1 customers in Rhode Island and Massachusetts. The cost of this power has generally been above the wholesale market prices. Therefore, our assumption that the output from Brayton Point was sold 1/3 to serve standard offer 1 customers in Massachusetts, 1/3 to serve standard offer 1 customers in Rhode Island, and 1/3 into the wholesale market may understate the revenues that PG&E has received due to its ownership of Brayton Point Station.

We also have used the average monthly market clearing prices. It is possible that PG&E instead preferentially sold the output from the Brayton Point Station into the wholesale market during higher price hours. Consequently, our assumption may understate the revenues earned by PG&E.

However, it also is possible that PG&E has had contracts to sell some of the output from Brayton Point to other market participants. Such contracts may have had prices higher or lower than PG&E could obtain from selling the output to standard offer 1 customers or into the wholesale spot market. It is not possible to know without access to confidential PG&E documents. For this reason, we have assumed that any Brayton Point output that was not sold to standard offer customers in Rhode Island and Massachusetts was sold into the wholesale spot market.

In addition, these analyses starts with January 1999. PG&E certainly made additional net revenues from its sale of Brayton Point generation during 1998.

Moreover, the annual O&M expenditures we assumed for Brayton Point Station in our first analysis did not reflect any improved efficiencies from PG&E's management of Brayton Point or economies of scale from PG&E's ownership of numerous other generating facilities. Our assumed non-fuel O&M expenditures instead are based upon the $5.45 per MWH non-fuel O&M cost incurred by NEPCO during 1998. We have merely escalated this cost at the rate of inflation.

Methodology

For the months January through May 1999, i.e., the period before the opening of the wholesale spot market, we have assumed that all of Brayton Point's output was sold to serve standard offer 1 customers in Rhode Island and Massachusetts. For the period May 1999 through June 2002, we have assumed that the output from Brayton Point was sold in equal amounts to standard offer service 1 customers in Rhode Island and Massachusetts and into the wholesale spot market.

We have developed Brayton Point's gross and net generation from quarterly data published on the U.S. EPA's website.

We have used the monthly $/MWH rates that PG&E was paid for selling output to standard offer 1 customers in Rhode Island and Massachusetts and the average monthly market clearing prices in the New England wholesale spot market. This information was provided by Massachusetts Electric and Narragansett Electric or was obtained from the websites of the Massachusetts DTE and Rhode Island Public Utilities Commission.

In our first analysis we used fuel prices from the Energy Information Administration's Electric Power Monthly Reports for 1999, 2000, 2001 and the first months of 2002 to estimate Brayton Point Station's fuel costs.[2]

[2] Report DOE/EIA-0226. These reports are available at the www.doe.eia.gov.